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ACTION WHA-00

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	DODE-00	DOEE-00	ITCE-00	DOTE-00	SRPP-00	DS-00	EAP-00
	EB-00	EXME-00	E-00	FAAE-00	UTED-00	VC-00	FRB-00
	H-01	TEDE-00	INR-00	ITC-01	L-00	VCE-00	AC-01
	NSAE-00	NSCE-00	OMB-01	OPIC-01	PA-00	PC-05	PM-00
	PRS-00	ACE-00	P-00	SP-00	IRM-00	SSO-00	STR-00
	TEST-00	USIE-00	FMP-00	PMB-00	DSCC-00	DRL-02	G-00
	NFAT-00	SAS-00	/013W				

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R 162256Z MAY 01
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC 1492
INFO DEPT OF TREASURY WASHDC
USDOC WASHDC
AMEMBASSY CARACAS
AMEMBASSY LIMA
AMEMBASSY QUITO
AMEMBASSY LA PAZ
USCINCSO MIAMI FL
AMEMBASSY HANOI

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STATE FOR WHA/AND, WHA/EPSC

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TREASURY FOR OASIA - KOSMIDES

COMMERCE FOR 4331/IEP/OLA/AND/ANGLIN AND FOR
3134/USFCS/OIO/LUTTER

HANOI FOR PAUL BERG

E.O. 12958: N/A
TAGS: ECON, EFIN, PGOV, CO
SUBJECT: SLOW RECOVERY SLOWING SOME MORE?

SENSITIVE BUT UNCLASSIFIED. PLEASE HANDLE ACCORDINGLY.

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SUMMARY

1. (U) THE PACE OF COLOMBIA'S GROWTH SLOWED DOWN SOMEWHAT IN THE FIRST QUARTER. THE CULPRITS MAY BE HIGHER TAXES, LOWER GOVERNMENT SPENDING, SHORTAGE OF CREDIT, AND LOWER COMMODITY PRICES. A NOW CONCLUDED BEVERAGE SECTOR STRIKE MAY HAVE HAD A ROLE ALSO. WHILE A DEBATE RAGES OVER WHETHER THE ECONOMY IS SPUTTERING, GROWTH IS LIKELY TO STAY ON THE POSITIVE SIDE, IF BELOW THE OFFICIAL GOC PREDICTIONS. IN THIS ENVIRONMENT, NO IMPROVEMENT IN COLOMBIA'S DISMAL UNEMPLOYMENT RATE IS LIKELY. END SUMMARY.

INDUSTRIAL PRODUCTION/SALES TANKING

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2. (U) THE NATIONAL INDUSTRIAL ASSOCIATION (ANDI), A LEADING TRADER ASSOCIATION WHICH CONDUCTS A DETAILED SURVEY OF COLOMBIA'S MANUFACTURING SECTOR, HAS ESTIMATED THAT DURING THE FIRST QUARTER OF 2001 INDUSTRIAL PRODUCTION INCREASED BY ONLY 3.0 PCT COMPARED WITH THE EQUIVALENT PERIOD IN 2000. (NOTE: BECAUSE OF THE LACK OF ADEQUATE METHODOLOGY FOR REMOVING SEASONAL VARIATION, COMPARISONS ARE USUALLY MADE HERE WITH THE EQUIVALENT PERIOD IN THE PREVIOUS YEAR, RATHER THAN THE IMMEDIATELY PRECEDING PERIOD. END NOTE.) THIS MARKED A CONTINUING DECELERATION IN THE RATE OF GROWTH OF INDUSTRIAL PRODUCTION, WHICH HAD INCREASED BY 13.7 PCT IN THE THIRD QUARTER OF 2000, AND DROPPED TO 8.3 PCT IN THE FOURTH QUARTER. INDUSTRIAL SALES GROWTH HAS BEEN ON A SIMILAR DOWNWARD TREND, AT 1.6 PCT FOR THE FIRST QUARTER, DOWN FROM 5.6 PCT GROWTH IN THE THIRD QUARTER OF 2000 AND 4.9 PCT DURING THE FOURTH QUARTER. WITH SALES THUS EVEN SLOWER THAN PRODUCTION, THIS SUGGESTS A BUILDUP IN INVENTORIES, WHICH, IT HAS BEEN ARGUED, COULD LEAD TO A FURTHER SLOWDOWN IN PRODUCTION LATER.

3. (U) ON THE BASIS OF THESE NUMBERS AND EARLIER FIGURES FOR JANUARY AND FEBRUARY, A LOUD DEBATE HAS BROKEN OUT INVOLVING GOC OFFICIALS, PRIVATE SECTOR FORECASTERS, ACADEMICS, AND BUSINESS GROUPS OVER WHETHER COLOMBIA'S RECOVERY FROM ITS 1999 RECESSION IS LOSING FORCE. GOC OFFICIALS AND SOME BUSINESS LEADERS DECRY SELF-FULFILLING PROPHECIES OF DOOM, WHILE PRIVATE AND ACADEMIC ANALYSTS WARN THAT REAL PROBLEMS CONTINUE TO LIMIT THE ECONOMY'S

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GROWTH POTENTIAL.

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OVERALL GDP DOWN A BIT FROM HOPES

4. (U) THE GOC'S GROWTH TARGET FOR 2001, ANNOUNCED AT THE BEGINNING OF THE YEAR, IS 3.8 PCT. THE NATIONAL PLANNING DEPARTMENT HAS ESTIMATED FIRST QUARTER GROWTH AT 2.7 PCT, SOMEWHAT BELOW THE 3.0 PCT GENERALLY THOUGHT TO BE REQUIRED IF THIS ANNUAL GROWTH TARGET IS TO BE MET. NONETHELESS, AS OFFICIALS ARE QUICK TO POINT OUT, IT IS ABOVE THE 2.5 PCT GROWTH RATE REACHED IN THE FIRST QUARTER OF 2000. (GDP GREW 2.7 PCT IN THE SECOND QUARTER OF 2000, 3.5 PCT IN THE SECOND QUARTER, 3.2 PCT IN THE THIRD QUARTER, AND 2.0 PCT IN THE FOURTH QUARTER).

NEGATIVE INTERNAL FACTORS

5. (SBU) OBSERVERS FROM BANKS, THINK TANKS, AND GOC AGENCIES HAVE IDENTIFIED SEVERAL IMPORTANT INTERNAL FACTORS WHICH ACT AS A DRAG ON GROWTH. THESE INCLUDE:

-- LOWER GOVERNMENT SPENDING: WITH THE GOC STRIVING TO MEET IMF-MANDATED DECLINES IN ITS FISCAL DEFICIT, GOVERNMENT SPENDING IS ON A VERY TIGHT LEASH, BOTH FOR NORMAL OPERATIONS AND FOR INVESTMENT. BUILDING ON

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	NSAE-00	NSCE-00	OMB-01	OPIC-01	PA-00	PC-05	PM-00
	PRS-00	ACE-00	P-00	SP-00	IRM-00	SSO-00	STR-00
	TEST-00	USIE-00	FMP-00	PMB-00	DSCC-00	DRL-02	G-00
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TO SECSTATE WASHDC 1493
INFO DEPT OF TREASURY WASHDC
USDOC WASHDC
AMEMBASSY CARACAS
AMEMBASSY LIMA
AMEMBASSY QUITO
AMEMBASSY LA PAZ
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TREASURY FOR OASIA - KOSMIDES

COMMERCE FOR 4331/IEP/OLA/AND/ANGLIN AND FOR
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HANOI FOR PAUL BERG

E.O. 12958: N/A

TAGS: ECON, EFIN, PGOV, CO

SUBJECT: SLOW RECOVERY SLOWING SOME MORE?

AUSTERITY MEASURES WHICH CUT THE FISCAL DEFICIT IN 2000, THE GOC HAS ANNOUNCED ITS INTENTION TO FREEZE MOST PUBLIC INVESTMENT (ASIDE FROM MILITARY/POLICE AND "PLAN COLOMBIA" SPENDING). THE DEPRESSIVE EFFECT MAY BE AGGRAVATED BY THE FACT THAT A RANGE OF MAJOR PUBLIC WORKS PROJECTS IN BOGOTA HAVE BEEN COMPLETED, AND FOLLOW-ON WILL OCCUR AT A LOWER RHYTHM. THE GOC HAS ALSO BEGUN TO SLOWLY LAY OFF WORKERS AND CONSOLIDATE ADMINISTRATIVE BODIES.

-- HIGHER TAX BILLS: IN DECEMBER CONGRESS PASSED A REVENUE ENHANCING TAX REFORM WHICH INCLUDED AN INCREASE IN VALUE-ADDED TAX FROM 15 PCT TO 16 PCT AND ITS EXTENSION TO NEW CATEGORIES, AS WELL AS AN INCREASE IN THE 0.02 PCT FINANCIAL TRANSACTIONS TAX TO 0.03 PCT. IT IS GENERALLY AGREED THAT THIS IS BEGINNING TO BITE INTO THE SPENDING POWER OF BOTH CONSUMERS AND BUSINESSES.

-- CONTINUED CREDIT CRUNCH: WHILE THE BANK OF THE REPUBLIC HAS LOWERED WHOLESALE INTEREST RATES OVER THE LAST

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YEAR, BANKS REMAIN UNWILLING TO LEND, PREFERRING TO
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CONTINUE TO CLEAN UP THEIR BALANCE SHEETS AND TO INVEST IN
GOC SECURITIES. CONSUMER CREDIT HAS ALSO REMAINED TIGHT,
WITH LOAN RATES AS HIGH AS 35 PCT, A RATE INTENTIONALLY
DESIGNED, ONE BANK OF THE REPUBLIC EXPERT TOLD US, TO KEEP
POTENTIAL CUSTOMERS AWAY.

-- LOW CONFIDENCE: AMONG BOTH BUSINESSES AND CONSUMERS,
"ANIMAL SPIRITS" REMAIN VERY LOW. IN AN ENVIRONMENT OF
ALREADY HIGH UNEMPLOYMENT, WORKERS REMAIN VERY CONCERNED
ABOUT LOSING THEIR JOBS, AND ARE HESITANT TO MAKE BIG NEW
PURCHASES. THE POLITICAL AND SECURITY ENVIRONMENT ALSO
REMAINS DISCOURAGING. PRESIDENT PASTRANA IS LIMPING INTO
HIS LAST YEAR, AND NONE OF THE LEADING CONTENDERS TO
SUCCEED HAVE PRESENTED PARTICULARLY DETAILED OR PLAUSIBLE
PROGRAMS WHICH HAVE CAUGHT PUBLIC IMAGINATION. THE PEACE
PROCESSES WITH BOTH THE FARC AND ELN APPEAR STALLED. AND
WHILE THE COLOMBIAN MILITARY CAN POINT TO SOME SUCCESSES,
THE NEWSPAPERS REMAIN FILLED WITH ACCOUNTS OF GUERRILLA AND
PARAMILITARY OUTRAGES, AND RURAL COLOMBIA REMAINS AS UNSAFE
AS EVER.

PROBLEMS WITH COMMODITY EXPORTS

6. (U) IT IS ALSO ARGUED THAT A DECAYING EXTERNAL
ENVIRONMENT IS HURTING GROWTH. AN IMPORTANT ELEMENT IS
LOWER PETROLEUM EARNINGS. COLOMBIAN PRODUCTION HAS PEAKED,
AND THIS YEAR IS PREDICTED TO BE LOWER THAN LAST YEAR.
THIS IS AGGRAVATED BY THE FACT THAT GUERRILLA ATTACKS HAVE
SHUT DOWN THE PIPELINE WHICH BRINGS CRUDE FROM OXY'S CANO
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LIMON FIELD TO THE SEA. HOWEVER, IF THE SECURITY SITUATION
STABILIZES, PRESUMABLY A GOOD DEAL OF THIS PRODUCTION CAN
BE RECOVERED. IN THE FIRST QUARTER OF 2001, COLOMBIA WAS
PRODUCING 626,000 BARRELS OF OIL PER DAY, COMPARED WITH
724,000 BARRELS PER DAY IN THE SAME QUARTER OF 2000. OIL
PRICES (THOUGH HEADING BACK UP) ARE STILL BELOW THE PEAKS
FROM WHICH COLOMBIA BENEFITED LAST YEAR.

7. (U) LOWER COFFEE EARNINGS ARE ANOTHER HEADACHE. WORLD
PRICES FOR COLOMBIAN COFFEE HAVE BEEN DEPRESSED, CURRENTLY
AT AROUND USD 0.85/LB., DOWN FROM USD 1.08 IN 2001 AND USD

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1.18 IN 2000. COFFEE GROWERS FEDERATION HEAD JORGE CARDENAS HAS SUGGESTED THAT COFFEE EXPORT EARNINGS WERE UNLIKELY TO REACH USD 1 BILLION THIS YEAR (VERSUS USD 1.07 BILLION IN 2000 AND USD 1.35 BILLION IN 1999). ONCE A MAJOR MOTOR OF COLOMBIA'S ECONOMY, COFFEE APPEARS TO BE IN A LONG-TERM DECLINE, IN THE FACE OF COMPETITION FROM LOWER COST PRODUCERS, LACK OF REINVESTMENT, AND UNIMAGINATIVE MARKETING.

BUT IS IT SO BAD?

8. (U) THOSE WITH A MORE SANGUINE VIEW OF COLOMBIA'S PROSPECTS SUGGEST THAT THE PARADE OF BAD NEWS MENTIONED ABOVE IS IN SOME MEASURE EITHER OVERDRAWN, REFLECTS SOME

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	NFAT-00	SAS-00	/013W				

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R 162256Z MAY 01
FM AMEMBASSY BOGOTA
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INFO DEPT OF TREASURY WASHDC
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MERELY TRANSITORY PROBLEMS, AND/OR IGNORES POSITIVE
PHENOMENA. ARGUMENTS THAT THE SKY IS NOT IN FACT FALLING
INCLUDE:

-- THE BEER BARREL EFFECT: THE POOR FIRST QUARTER RESULTS
INCLUDED A MONTH-LONG STRIKE BY BAVARIA, COLOMBIA'S LARGEST
PRODUCER OF BEER, SODA, AND BOTTLED WATER. COLOMBIA'S
ECONOMY IS SMALL ENOUGH THAT ONE BIG STRIKE CAN HAVE A
DISTORTING EFFECT. THE BEVERAGE SECTOR, WITH IMPORTANT
BACKWARD LINKAGES (E.G. PACKAGING, FOODSTUFFS) AND FORWARD
LINKAGES (E.G. TRANSPORTATION, RETAILING) CAN DRAG OTHER
SECTORS UP OR DOWN WITH IT EASILY. PLANNING DEPARTMENT
OFFICIALS SUGGESTED THAT WE WOULD BEGIN TO SEE AN UPWARD
CHANGE NOW THAT THE STRIKE HAS BEEN SETTLED.

-- CONTINUED STRONG NON-TRADITIONAL EXPORTS: THEY GREW AT
A RATE OF 11.4 PCT IN THE FIRST QUARTER OF 2001, BUILDING
ON A STRONG PERFORMANCE IN 2000, WHERE, HELPED BY THE CHEAP
PESO, THEY GREW 17.3 PCT. HOWEVER, THERE IS SOME CONCERN
THAT THE U.S. SLOWDOWN, WHICH ALREADY HIT COLOMBIA THROUGH

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COMMODITY PRICES, MAY BEGIN TO AFFECT NON-TRADITIONAL
EXPORTS. THIS IS TEMPERED BY A SENSE HERE THAT THE WORST
OF THE U.S.'S PROBLEMS MAY BE BEHIND IT.

-- ALAN GREENSPAN: THE FEDERAL RESERVE'S SERIES OF RATE
DROPS HAVE ALLOWED COLOMBIA, LIKE OTHER DEVELOPING
COUNTRIES, TO ALSO DROP INTEREST RATES. (HOWEVER, THE
CENTRAL BANK KEPT INTEREST RATES UP IN THE FACE OF THE
FED'S RATE CUT LAST MONTH, PROBABLY CALCULATING THAT
UNCERTAINTY OVER LATIN AMERICAN AND OTHER DEVELOPING MARKET
ECONOMIES DID NOT GIVE IT THAT LUXURY. IT IS NOT CLEAR
WHAT THE CENTRAL BANK WILL DO IN THE FACE OF THE LATEST

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ONE.)

UNEMPLOYMENT

9. (U) UNSURPRISINGLY, IN THIS AT BEST MIXED ENVIRONMENT, THE JOB SITUATION HAS REMAINED GRIM. UNEMPLOYMENT IN COLOMBIA'S 13 LARGEST CITIES WAS PUT AT 19.1 PCT, A DETERIORATION FROM 15.9 PCT DURING THE EQUIVALENT PERIOD IN 2000. THE NATIONWIDE UNEMPLOYMENT FIGURE WAS 15.3 PCT, AN IMPROVEMENT FROM 16.8 PCT UNEMPLOYMENT IN THE PREVIOUS YEAR. (NOTE: THE GOC STATISTICAL AUTHORITY HAS BEEN REVISING ITS UNEMPLOYMENT METHODOLOGY, AND THE COMPARISONS WITH EQUIVALENT QUARTERS IN 2000 MAY BE LESS THAN COMPLETELY ACCURATE, BUT MOST OBSERVERS BELIEVE THAT THERE HAS NOT BEEN MAJOR CHANGE UP OR DOWN IN UNEMPLOYMENT.)

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CONCLUSION: DOLDRUMS YES, CRISIS NO

10. (SBU) WHILE THERE IS GOOD NEWS TO SET AGAINST THE BAD, THE CONSENSUS DOES SEEM TO BE THAT THE BAD SOMEWHAT OUTWEIGHS THE GOOD, AND THAT THE OFFICIAL 2001 GDP GROWTH TARGET OF 3.8 PCT WILL HAVE TO BE REVISED DOWNWARD. DURING A MAY 3 MEETING WITH THE AMBASSADOR, FINMIN SANTOS SUGGESTED THAT 3.0 PCT WOULD BE MORE REASONABLE, AND SIMILAR PUBLIC REMARKS BY HIM AND NATIONAL PLANNING DIRECTOR ECHEVERRY INDICATE THAT MARKETS ARE BEING PREPARED FOR THE CHANGE. PRIVATE SECTOR ECONOMISTS HAVE SUGGESTED OTHER FIGURES, MOST BETWEEN 2.5 AND 2.8 PCT. NONE SUGGEST A TRUE RECESSION IS IN THE OFFING. (NOTE: LAST YEAR, AT LEAST, PRIVATE AND ACADEMIC ECONOMISTS GENERALLY UNDERESTIMATED ECONOMIC GROWTH.) WHILE THERE IS NO REASON TO EXPECT ANY ECONOMIC CRISIS, NEITHER CAN WE CAN EXPECT ANY "FEEL GOOD" FACTOR AS PASTRANA HEADS INTO HIS FINAL YEAR.

MOORE

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